BANCO CENTRAL DO BRASIL

Minutes of the 173rd Meeting of the Monetary Policy Committee (Copom)

Summary
Recent Economic Developments
Assessment of Inflation Trends
Monetary Policy Decision
Inflation
Economic Activity
Surveys and Expectations
Labor Market
Credit and Delinquency Rates
External Environment
Foreign Trade and International Reserves
Money Market and Open Market Operations

Date: March 5th, 2013, from 4:17PM to 8:08PM, and March 6th, from 4:54PM to 8:30PM

Place: BCB Headquarters meeting rooms – 8th floor on March 5th and 20th floor on March 6th – Brasília – DF

In attendance:
Members of the Committee
Alexandre Antonio Tombini – Governor
Aldo Luiz Mendes
Altamir Lopes
Anthero de Moraes Meirelles
Carlos Hamilton Vasconcelos Araújo
Luiz Awazu Pereira da Silva
Luiz Edson Feltrim
Sidnei Corrêa Marques

Department Heads (present on March 5th)
Bruno Walter Coelho Saraiva - International Affairs Department
Daso Maranhão Coimbra - Department of Banking Operations and Payments System
Eduardo José Araújo Lima - Research Department (also present on March 6th)
João Henrique de Paula Freitas Simão - Open Market Operations Department
Márcio Barreira de Ayrosa Moreira - Department of Foreign Reserves
Renato Jansson Rosek – Investor Relations and Special Studies Department
Tulio José Lenti Maciel – Economic Department

Other participants (present on March 5th)
Gustavo Paul Kurrle – Press Officer
Otávio Ribeiro Damaso – Chief of Governor 's Staff

The members of the Copom analyzed the recent performance of and the prospects for the Brazilian economy and for the international economy, under the monetary policy framework, which is designed to comply with the inflation targets established by the government.

Recent Economic Developments

1. Monthly inflation measured by the Extended Consumer Price Index (IPCA) reached 0.86% in January, 0.07 percentage points (p.p.) above the registered in December. As a consequence, inflation in twelve months reached 6.15% in January (compared to 6.22% in January 2012). Market prices changed 7.20% in twelve months (6.42% until January 2012), and regulated prices, 2.94% (5.71% until January 2012). Among market prices, the prices of tradable goods increased 5.54%, and the prices of non-tradable goods, 8.69%. The prices of food and beverages group, impacted by weather-related factors, increased by 1.99% in January and

reached 11.09% in twelve months (6.88% until January 2012). The prices of services rose 0.92% in January and 8.61% in twelve months (9.20% until January 2012). In short, services inflation remains at high levels, and there are pressures in the food and beverages segment.

2. The average of the underlying inflation measures, calculated by the BCB, has moved from 0.70% in December to 0.73% in January. On its turn, on a twelve-month trailing basis, the average change of the core inflation measures moved from 5.60% in December to 5.82% in January. In this context, the smoothed trimmed means IPCA core inflation moved from 0.56% in December to 0.73% in January, while the non-smoothed trimmed means core inflation changed from 0.64% to 0.77% in the same period. Similarly, the double weight core inflation slightly decreased, from 0.67% in December to 0.65% in January. At the same time, core inflation by exclusion, which excludes ten household food and fuels items, decreased more strongly, from 0.76% in December to 0.63% in January, and the core inflation by exclusion of regulated prices and household food changed from 0.88% in December to 0.87% in January.

3. Inflation measured by the General Price Index (IGP-DI) increased 0.20% in February, after increasing by 0.31% in January, and it accumulates change of 8.24% in the twelve months through February (3.38% in the twelve months through February 2012). In this period, the main component of this indicator, the Wholesale Price Index (IPA), changed 9.24%, mainly influenced by pressures stemming from the agricultural sector (15.45% change), which was impacted by supply shocks. According to the breakdown by stage of production, there were increases in the prices of raw materials (10.03%), intermediate goods (9.71%) and final goods (7.97%), according to the same comparison basis. Inflation measured by the Consumer Price Index (IPC), the second most important component of the IGP-DI, stood at 6.04% in twelve months through February (5.62% in the twelve months through February 2012). The Civil Construction National Index (INCC), component with the lowest weight in the IGP-DI, changed 7.18% in the period (8.02% in the twelve months through February 2012), partially driven by the increase in labor cost. On its turn, the Producer/Manufacturing Industry Price Index (IPP/IT), calculated by the Brazilian Institute of Geography and Statistics (IBGE), despite the 0.04% retreat in January, increased 7.69% in twelve months. The Copom considers that the effects of the behavior of wholesale prices on consumer inflation will depend on the current and prospective demand conditions and on the price setters' expectations regarding the future inflation path.

4. The Economic Activity Index of the BCB (IBC-Br) incorporates estimates for the monthly production of the three sectors of the economy, as well as for taxes on products, and constitutes important coincident indicator of economic activity. Considering seasonally adjusted data, the IBC-Br increased by 0.3% in December, after increasing by 0.6% in November. As a consequence, the indicator increased 0.6% in the fourth quarter of 2012, quarter-over-quarter, and 3.0% year-over-year, accumulating 1.6% in the year, compared to 2.7% in 2011 and 7.6% in 2010. The Consumer Confidence Index (ICC), from the Getúlio Vargas Foundation (FGV), retreated for the fifth consecutive month in February, considering seasonally adjusted data, although it stands above the historical average of the index. On its turn, the Services Sector Confidence Index (ICS) decreased in February, month-on-month, after increasing in January. At the same time, the industrial businessmen confidence continues in a gradual recovery trajectory. According to the FGV, the Industry Confidence Index (ICI) slightly increased in February, according to the seasonally adjusted series, boosted by gradual improvement in expectations. Regarding agriculture, the Agricultural Production Systematic Assessment, carried out by the IBGE, indicates that grains production should grow by 13.1% in 2013, relative to the 2012 harvest.

5. Brazilian economy grew 0.6% in the fourth quarter, quarter-over-quarter, after growing by 0.4% in the third quarter, according to data seasonally adjusted and released by the IBGE. Year-over-year, GDP growth in the fourth quarter reached 1.4%, up from 0.9% in the third quarter. Therefore, the Brazilian economy grew 0.9% in 2012, after increasing by 2.7% in the previous year and 7.5% in 2010. On the demand side, household consumption – the greatest component of aggregate demand – continues robust and, at the margin, it increased by 1.2% in the fourth quarter and 3.9% relative to the same quarter of 2011 – thirty seventh consecutive expansion according to this comparison basis. Government consumption increased by 0.8% at the margin and 3.1% relative to the same quarter last year. After decreasing by four quarters, Fixed Capital Gross Formation (FCGF) increased 0.5%, at the margin, but relative to the fourth quarter of 2011, it decreased 4.5%. As a consequence, investment rate in 2012 stood at 18.1% of GDP. Regarding external trade, exports

expanded by 4.5% and imports, 8.1%, both at the margin, and 2.1% and 0.4%, respectively, relative to the same quarter of 2011.

6. Manufacturing activity was stable in December, after a 1.3% decrease in November, according to the general industrial production series seasonally adjusted by the IBGE. Production increased in 13 of the 27 branches of activity. Thus, the average production recorded in the quarter ended in December was 0.3% lower than the one registered in the previous quarter. In 2012, industrial production stood 2.7% below the one registered in 2011. According to data released by the National Confederation of Industry (CNI), real revenue in the manufacturing industry decreased 1.2% in December, compared to the same month of the previous year, and the number of worked hours decreased 2.4%. In 2012, real revenue increased 2.4%, and the number of worked hours decreased 1.5%, according to the same comparison basis.

7. Among the industry use categories, according to data seasonally adjusted by the IBGE, and considering the month-on-month growth in December, the production of durable consumer goods changed -0.5%; the production of semi-durable and nondurable consumer goods, 0.9%; the production of capital goods, -0.8%; and the production of intermediate goods, -0.1%. Year-over-year, the production of durable consumer goods changed -3.5%; the production of semi-durable and nondurable consumer goods, -0.8%; the production of capital goods, -14.7%; and the production of intermediate goods, -2.5%. As a consequence, in 2012, the production of durable consumer goods changed 3.4%; the production of semi-durable and nondurable consumer goods, -0.3%; the production of capital goods, -11.8%; and the production of intermediate goods, -1.7%.

8. The unemployment rate for the six metropolitan areas covered by the Monthly Employment Survey (PME), without seasonal adjustment, was estimated at 5.4% in January (5.5% in January 2012). According to BCB seasonally adjusted data, the unemployment rate in January remained unchanged at 5.5%. The reduction in the Working Age Population (WAP) growth rate during the last years has contributed to the process of reduction in the unemployment rates. On its turn, the proportion of formal workers in the private sector reached 50.1% of the occupied population - a new record high for the historical series. Still according to the PME, the average real income increased 2.4% in January, year-over- year. On its turn, real payroll increased 5.3% year-over-year. Data released by the Ministry of Labor and Employment (MTE) show that, in January, 28.9 thousand formal jobs were created (118.9 thousand in January 2012), with positive results in six out of eight sectors of economic activity and contribution of 43.4 thousand jobs in industry. In short, the set of available data indicates narrow idleness margin in the labor market and accommodation at the margin.

9. According to the retail monthly survey (PMC) from IBGE, retail sales volume increased 5.0% in December, year-over-year, both for retail sales and for broad retail sales. Month-on-month, retail sales changed by -0.5% in December, according to the seasonally adjusted series, and broad retail sales increased by 1.3%. As a consequence, the broad retail sales growth rate in 2012 stood at 8.0%, with expansion in all ten sectors surveyed, with highlights for furniture and appliances (12.3%) and pharmaceutical, medical, orthopedic and perfumery articles (10.2%). On its turn, the Trade Confidence Index (ICOM), measured by the FGV, pointed to the third consecutive retreat in the quarter ended in February. For the upcoming months, the retail sales trajectory will continue to be influenced by governmental transfers, by the pace of real payroll growth and by moderate credit expansion.

10. The installed capacity utilization rate (Nuci) in the manufacturing industry, calculated by the FGV, without seasonal adjustment, increased in February to 83.3% (82.9% in February 2012). According to the seasonally adjusted series calculated by the FGV, the Nuci stood at 84.1% in February. Capacity utilization in the consumer goods sector, according to the seasonally adjusted series, retreated to 84.4%. In the sectors of capital goods, intermediate goods and construction inputs, the levels stood at 82.4%, 84.9% and 89.5%, respectively.

11. The twelve-month trailing trade balance result retreated to US$13.7 billion in February. This result stemmed from US$239.9 billion in exports and US$226.2 billion in imports, associated to changes of -7.1% and -1.5%, respectively, compared to the previous twelve months. On its turn, the current account deficit accumulated in twelve months reached US$58.6 billion in January, equivalent to 2.6% of GDP, while the foreign direct

investment totaled US$63.6 billion in the twelve months through January, equivalent to 2.8% of GDP, surpassing the need for external financing.

12. In the global economy, prospects for low growth for a long period in important advanced economies remain and there was some accommodation in the volatility and risk aversion indicators. High unemployment rates, coupled with the fiscal consolidation and political uncertainties, are translated into projections of low growth for advanced economies, mainly in Europe. The compound leading indicator released by the Organization for Economic Cooperation and Development (OECD), related to December, continues to indicate growth in the United States (US), growth recovery in Japan and stability in the activity levels in the Euro Area. On its turn, the disaggregated indicators of the Purchasing Managers Index (PMI), related to January, as well as the preliminary results of February, indicate improvement at the margin in the US and in important emerging economies. Regarding monetary policy, advanced economies have persisted with strongly accommodative stances. In emerging economies, in general, monetary policy is expansionist. Inflation has remained at moderate levels in the US and in the Euro Area, and negative in Japan.

13. The price of Brent oil barrel has remained above US$110, since the previous Copom meeting. It bears highlighting that the geopolitical complexity that involves the oil sector tends to heighten the volatile behavior of prices, which is also a reflex of the low predictability of some global demand components and of the dependency of supply growth on long term risky investment projects. As measured by the Commodity Research Bureau (CRB), since the last Copom meeting, the international prices of metallic and agricultural commodities have decreased respectively 2.3% and 4.8%. On its turn, the Food Price Index, calculated by the Food and Agriculture Organization of the United Nations (FAO), accumulates a fall of 1.4% in twelve months through January 2013.

Assessment of Inflation Trends

14. The identified shocks, and their impacts, were reassessed according to the new set of available information. The scenario considered in the simulations was based on the following assumptions:

a) the projected adjustment for gasoline price in 2013, was maintained at 5%, unchanged relative to the last Copom meeting;

b) the projected adjustment for household electricity price points to a decrease of nearly 15%, down from 11% considered at the January Copom meeting. This estimate considers the direct impacts of the sector charges reductions recently announced, as well as readjustments and ordinary tariff revisions planned for this year;

c) fixed telephone tariff and bottled gas prices are projected to remain stable, for 2013;

d) the projected adjustment, based on individual items, for the set of regulated prices inflation accumulated in 2013, was decreased to 2.7%, down from 3.0%, considered at the January Copom meeting; and

e) the projected adjustment for the set of regulated prices accumulated in 2014 was maintained at 4.5%, the same value considered at the January Copom meeting. This projection is based on endogenous determination models for regulated prices, which compute, among other factors, seasonal components, market prices inflation, and the inflation measured by the IGP (General Price Index).

15. The projection for the spreads over the Selic rate, based on the 360-day swap rates, on the baseline scenario, estimates 45 bps and 32 bps spreads for the fourth quarter of 2013 and 2014, respectively.

16. Regarding fiscal policy, projections assume the achievement in 2013 of the public sector primary surplus of R$ 155.9 billion, according to parameters set out in the Budget Guidelines Law (LDO) – 2013. For 2014, as a working hypothesis, a primary surplus of around 3.10% of GDP is accepted.

17. The set of projections incorporates the estimated effects of the reduction in the neutral interest rate identified over the last years.

18. Since the last Copom meeting, the median of the expectations compiled by Investor Relations and Special Studies Department (Gerin) for the 2013 IPCA increased from 5.53% to 5.70%. For 2014, the median of inflation expectations remained stable at 5.50%. Specifically for banks, asset managers and other institutions

(real sector companies, brokers, consultancies and others), the median of expectations for the 2013 IPCA changed from 5.52%, 5.54% and 5.56% to 5.67%, 5.73% and 5.61%, respectively. For 2014, the median of expectations changed from 5.50%, 5.50% and 5.30% to 5.55%, 5.80% and 5.38%, in the same order.

19. The baseline scenario assumes the maintenance of the exchange rate at R$2.00/US$1.00 and the Selic rate at 7.25% p.a. during the forecast period. Under this scenario, the projection for the 2013 inflation increased relative to the figure considered at the January Copom meeting and stands above the 4.50% midpoint target established by the National Monetary Council (CMN). According to the market scenario, which incorporates the consensus exchange and Selic rates trajectories collected by Gerin in the period immediately prior to the Copom meeting, 2013 IPCA inflation forecast also increased and stands above the midpoint inflation target. For 2014, inflation forecast increased relative to the January Copom meeting and stands above the midpoint inflation target, in both scenarios.

Monetary Policy Decision

20. The Copom evaluates that monetary policy should contribute to the consolidation of a favorable longer-term macroeconomic environment. In this respect, the Copom reassures that, under the inflation targeting regime, it guides its decisions according to BCB projected inflation and based on the analysis of alternative scenarios for the evolution of the main variables that determine prices dynamics. The Copom also understands that low risks for the underlying inflation in the short run tend to reduce uncertainties regarding the future behavior of headline inflation, facilitate the assessment of scenarios by the monetary authority, as well as help the process of coordination of economic agents' expectations, particularly price setters'. Additionally, it is noteworthy that low risks for the underlying inflation in the short run tend to intensify the effects of monetary policy actions, enabling them to affect in a more long-lasting manner the dynamics of headline inflation in the future. Although the Copom recognizes that other macroeconomic policy actions may influence the prices trajectory, it reaffirms its view that it is particularly under the responsibility of the monetary policy to remain especially vigilant, to guarantee that pressures detected in shorter horizons do not spread to longer horizons.

21. The Copom understands that there were significant structural changes in the Brazilian economy, which determined retreat in interest rates in general and, in particular, in the neutral rate. Among the factors that support this view, it bears highlighting the reduction in risk premia, a direct consequence of the accomplishment of the inflation target for the ninth consecutive year, of the macroeconomic stability and of institutional improvements. Moreover, the process of interest rates reduction was favored by changes in the structure of financial and capital markets, by the credit market deepening, as well as by the generation of primary surpluses consistent with the maintenance of the decreasing trend for the public debt-to-GDP ratio. For the Committee, all these transformations are characterized by high degree of persistence - although, due to the economic cycles themselves, specific and temporary reversions may occur - and contribute for the Brazilian economy's current solid indicators of solvency and liquidity.

22. The Copom also evaluates that the increase in the supply of external savings and the reduction of its funding cost, which, according to the Committee's assessment, are largely permanent developments, have contributed to the reduction of the domestic interest rates, including the neutral rate.

23. The Copom considers that, since its last meeting, the risks to global financial stability remained high, particularly those derived from the ongoing deleveraging process in the main economic blocks. In this context, despite identifying low probability of occurrence of extreme events in international financial markets, the Committee considers that the external environment remains complex. The Committee evaluates that, in general, the prospects for moderate global activity remained unchanged. In mature economies, the space to use monetary policy seems to be limited and the fiscal restraint scenario prevails in this and in the next years. In important emerging economies, however, the activity pace has intensified, supported by the resilience of domestic demand. The Committee also highlights evidences of accommodation of international commodities prices.

24. The Copom evaluates that the pace of recovery in domestic economic activity - less intense than previously anticipated - is essentially due to limitations regarding the supply side. Given their nature, therefore, these

impediments cannot be addressed by monetary policy actions, which are, *par excellence*, demand control tools. On the other hand, the Committee highlights that recent information points to the investment resumption and to a growth path more aligned with potential growth. Moreover, the Committee notices that domestic demand will continue to be boosted by the lagged effects of monetary policy actions recently implemented, as well as by the moderate expansion of credit supply, both for individuals and corporate. Additionally, domestic activity will continue to be favored by public transfers, as well as by the labor market vigor, which is reflected in historically low unemployment rates and in wage growth, despite some accommodation at the margin.

25. The Copom observes that the main inflation scenario considers the materialization of the assumed trajectories regarding fiscal variables. It also notes that the generation of primary surpluses in line with the working hypotheses considered for inflation projections, in addition to contributing to reduce the mismatch between supply and demand growth rates, will strengthen the reduction trend of the public debt-to-GDP ratio and the positive perception regarding the macroeconomic environment in the medium and long terms.

26. The Copom highlights that its main scenario also considers moderate expansion in the credit market. Still about the credit market, the Committee considers opportune initiatives with the aim of moderating the concessions of subsidies through credit operations.

27. The Copom emphasizes that its main scenario includes more intense domestic activity this year. In this context, the Committee highlights the narrow idleness margin in the labor market, despite the signs of moderation in this market, and it considers that, under such circumstances, a significant risk stems from the possibility of concession of wages increases incompatible with productivity growth and their negative impacts over inflation dynamics. On the other hand, the Copom notes that the level of installed capacity utilization is below the long-term trend, in other words, it is contributing to the opening of the output gap and to contain prices pressures. Furthermore, the Copom emphasizes moderation recently observed in the prices dynamics of some real and financial assets, which, in the assumption of remaining at the current levels, will constitute important disinflationary strength.

28. The Copom evaluates that the greater dispersion of consumer price increases recently observed, seasonal pressures and pressures localized in the transportation segment, among other factors, contribute for inflation to show resistance. Although this unfavorable dynamics may not represent a temporary phenomenon, but a possible accommodation of inflation at a higher level, the Committee considers that remaining uncertainties – stemming from foreign and domestic fronts - surround the prospective scenario and recommend that monetary policy should be administered with caution.

29. In this context, assessing the macroeconomic outlook and the inflation prospects, the Copom unanimously decided to maintain the Selic rate at 7.25% p.a., without bias.

30. The following members of the Committee voted for this decision: Alexandre Antonio Tombini (Governor), Aldo Luiz Mendes, Altamir Lopes, Anthero de Moraes Meirelles, Carlos Hamilton Vasconcelos Araújo, Luiz Awazu Pereira da Silva, Luiz Edson Feltrim and Sidnei Corrêa Marques.

31. The Copom evaluates that domestic demand tends to show robustness, especially household consumption, largely due to the effects of stimulus factors, such as income growth and moderate credit expansion. This scenario tends to prevail in this and in the upcoming semesters, when domestic demand will be impacted by the effects of monetary policy actions recently implemented, which are, in short, lagged and cumulative. For the Committee, these effects, the programs of public services concession, the inventories at adjusted levels and the gradual recovery of businessmen's confidence create prospects for investment intensification. The Committee considers that recent initiatives indicate the balance of the public sector in expansionist position. On the other hand, the Committee notes that the still fragile international scenario represents an aggregate demand restraining factor. These elements and the developments in the quasi fiscal framework and in the assets market are important parts of the context in which future monetary policy decisions will be taken, aiming to ensure the timely convergence of inflation to the targets path.

32. The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, shows that high inflation rates generate distortions that lead to higher risks and depress investment. These distortions are manifested, for example, in the shortening the planning horizons of households, businesses and governments, as well as in the deterioration of the businessmen' confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over households' confidence and consumption. Therefore, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.

33. In this context, the Committee will monitor the evolution of the macroeconomic scenario until its next meeting, to then define the next steps in its monetary policy strategy.

34. At the end of the meeting, it was announced that the Committee will reconvene on April 16th, 2013, for the technical presentations, and on the following day, to discuss monetary policy, as established in the Communiqué 22,665, of June 27th, 2012.

SUMMARY OF DATA ANALYZED BY THE COPOM

Inflation

35. The IPCA-15 changed 0.68% in February, compared to 0.88% in January, totaling an increase of 6.18% in the twelve months through February, down from 6.02% in January, according to data released by the IBGE. The deceleration of the index in the month mainly reflected the retraction in regulated prices, which changed -1.30% in February, compared to 0.34% in January. Regarding market prices, which increased 1.30% in February, compared to 1.05% in January, the movement reflected the prices acceleration of non-tradable goods, from 1.20% to 1.71%, with services changing 1.37%, up from 1.06% in the previous month, while the prices of tradable goods decreased from 0.89% to 0.85%. The IPCA-15 monthly change was favored by the 2.17% retraction in housing sector prices, with contribution of -0.32 p.p., especially in the item household electric energy, with contribution of -0.45 p.p.. The diffusion index stood at 70.96% in February, compared to 73.70% in January.

36. On a twelve-month basis through February, market prices increased compared to January, from 6.82% to 7.58%, while regulated prices decreased from 3.59% to 1.88%. The evolution of market prices reflected the effect of prices acceleration of tradable goods, from 5.08% to 6.23%, and non-tradable goods, from 8.39% to 8.78%, in the analyzed period. The prices of services increased 8.53% in the last twelve months through February, compared to 8.54% and 8.17% in the same periods through January and December, respectively.

37. The IGP-DI changed 0.20% in February, after increasing by 0.31% in January, according to FGV, reflecting acceleration in the IPA and deceleration in the IPC and the INCC. O indicator accumulates increases of 0.51% in the year, compared to 0.37% in the same period of 2012, and of 8.24% in twelve months, compared to 8.11% in the twelve months ended in January.

38. The IPA-DI increased 0.09% in the month, compared to a null change in January, accumulating increases of 0.09% in the year and 9.24% in twelve months. Industrial products prices increased 0.31% in the month, compared to 0.67% in January, accumulating increases of 0.98% in the year and 7.02% in twelve months. Agricultural prices decreased 0.48% in February, compared to -1.62% in the previous month, accumulating a fall of 2.10% in the year and an increase of 15.45% in twelve months. The monthly performance of industrial products prices evidenced, in special, the increase in the prices of oil and alcohol byproducts, 2.40%, and of metallic minerals, 3.73%, which contributed 0.19 p.p. and 0.18 p.p., respectively. Regarding agricultural products prices, the main influences stemmed from the items soybeans, coffee and corn, which respective changes of -6.31%, -4.07% and -1.98%, contributed -0.33 p.p., -0.05 p.p. and -0.05 p.p., respectively, to the total change.

39. The IPC-DI increased 0.33% in the month, down from 1.01% in January, accumulating 1.34% in the year, compared to 1.06% in the same period of the previous year, and 6.04% in twelve months. The IPC-DI

deceleration in February was favored by the fall in the housing group, -1.28%, compared to -0.17% in January, implying contribution of -0.32 p.p., and by the food group deceleration, to 1.33% in February, from 2.18% in the previous month, and a contribution of 0.32 p.p. The INCC-DI changed 0.60% in February, down from 0.65% in January, with highlights for the deceleration in the prices of materials, equipment and services, to 0.44%, from 0.63%, while labor force costs accelerated to 0.77%, from 0.66%. The INCC accumulated changes of 1.25% in the year and 7.18% in twelve months.

40. The IPP/IT changed -0.04% in January, after increasing 0.41% in December, accumulating 7.69% in twelve months through January, compared to 7.28% in December. The monthly result of the IPP/IT was influenced, mainly, by the 1.56% retraction in the prices of food, with contribution of -0.31 p.p. for the index, partially offset by the respective changes of 1.12%, 0.91% and 0.94% in the segments of vehicles motors, trailers and bodies; other chemical products; and metallurgy, with contributions of 0.13 p.p., 0.10 p.p. and 0.07 p.p., respectively. The change accumulated in twelve months through January reflected, above all, the contribution of the industries of food products, 2.49 p.p., and other chemical products, 1.42 p.p..

41. The Commodities Index Brazil (IC-Br) decreased 2.97% in February, after a fall of 1.41% in January. The decrease in February reflected the respective devaluations of 3.83%, 1.72% and 0.10% in the segments of agriculture and livestock, metals and energy. In 2013, the IC-Br accumulates a decrease of 4.34%, with devaluations of 5.61%, 1.16% e 1.65% in the respective segments.

Economic Activity

42. Brazilian economy GDP grew 0.6% in the fourth quarter of 2012, quarter-over-quarter, when it had grown 0.4% (revised), according to IBGE's seasonally adjusted data. Compared to the fourth quarter of 2011, GDP increased 1.4%. From the supply side, considering seasonally adjusted data, the result reflected changes of -5.2% in agriculture, 0.4% in industry and 1.1% in services. Regarding demand, the domestic component recorded increases in household consumption (1.2%), government consumption (0.8%), and Gross Fixed Capital Formation (GFCF) (0.5%). Relative to the external sector, exports increased 4.5% and imports, 8.1%. In the year, GDP increased 0.9%, with the increase of 1.7% in the services sector contrasting with decreases of 2.3% in agriculture and 0.8% in industry. From the demand side, the domestic component contributed 0.84 p.p., with highlights for the respective changes of 3.2% and 3.1% in government and households' consumption, and of 0.03 p.p. in the external sector, due to elevations of 0.5% in exports and of 0.2% in imports. In the year, the GFCF decreased 4%.

43. The Economic Activity Index of the BCB (IBC-Br) increased 0.26% in December, month-on-month, considering seasonally adjusted data. In the last quarter of 2012, the index expanded 0.62%, quarter-over-quarter, when it had grown 1.12%, according to the same comparison basis. According to the observed data series, the IBC-Br increased 1.19% in the month, year-over-year, compared to an expansion of 2.76% in November, according to the same comparison basis. In 2012, the IBC-Br increased 1.64%, compared to the previous year.

44. Broad retail sales, which include vehicles and construction inputs, increased 1.3% in December compared to the previous month, according to data seasonally adjusted from the IBGE's retail monthly survey (PMC), after decreasing 1.2% in November and increasing 5% in October. With this result, the fourth quarter of 2012 expanded 0.6%, quarter-over-quarter, when it had grown 2.1%. By segment, five out of the ten surveyed segments increased, with highlights for vehicles, motorcycles, parts and pieces, 8.3%, in contrast to the retraction of 15.5% in office, computer and communication material and equipment. Retail sales volume decreased 0.5% in December, month-on-month seasonally adjusted, after increases of 0.3% in November and 0.6% in October, in the same comparison basis. Considering seasonally adjusted data, retails sales expanded by 0.9% in the fourth quarter, quarter-on-quarter. In 2012, retail sales volume increased 8.4%.

45. Considering observed data, broad retail sales increased 5% in December, year-over-year, with expansion in nine segments, highlighting the increases in other articles of domestic and personal use, 10%; furniture and household appliances, 9%; construction material, 6.9%; vehicles, parts and pieces, 6.8%; and hypermarkets, supermarkets and food products, 6.6%; the only segment that decreased was office, computer and

communication material and equipment, -23.3%. In 2012, broad retail sales grew 8%, with highlights for furniture and household appliances, 12.3%; pharmaceutical, medical, orthopedic, perfumery and cosmetics articles, 10.2%; other articles of domestic and personal use, 9.4%; and hypermarkets, supermarkets and food products, 8.4%.

46. Automobile sales by dealers, including cars, light commercial vehicles, trucks and buses, reached 235.1 thousand units in February, decreasing 5.8% year-over-year. Month-on-month, the sales decreased 15.7%, after increases of 1.5% in January and 12.2% in December, according to the Automotive Vehicles Distribution National Federation (Fenabrave) data, seasonally adjusted by the BCB. In the quarter ended in February, sales increased by 7.8%, compared to the quarter ended in November, when it had retreated 15.7%. In the last twelve months until February, automobile vehicles sales increased 4.3%, as a consequence of the increase in the sales of cars (7%) and light commercial vehicles (1.4%); in contrast, the sales of trucks and buses fell by 20.6% and 16.5%, respectively.

47. Capital goods imports quantum index, released by the Foreign Trade Studies Centre Foundation (Funcex) and seasonally adjusted by the BCB, decreased 5.7% in January, month-on-month. According to the observed data, the index increased 14.8% year-over-year, and 0.7% in the twelve months through January.

48. Capital goods production decreased 0.8% in December, accumulating a 2% decrease in the fourth quarter, compared to the previous one, according to data seasonally adjusted from the Monthly Industrial Survey (PIM), by the IBGE. The performance of the category in the month was influenced by the decrease in the production of equipment for the construction sector (-41.6%), agricultural pieces (-13.3%) and equipment for serial industrial use (-9.8%); as opposed to the expansion of the segments transport equipment (11.3%), capital goods for electrical energy (7.4%) and equipment for non-serial industrial use (6.1%).

49. Construction inputs production decreased by 0.5% in December, accumulating a decrease of 0.7% in the quarter, quarter-over-quarter, considering seasonally adjusted data. Compared to the same periods of 2011, the segment production decreased 3.7% in the month, and increased 1.4% in 2012.

50. Disbursements granted by the Brazilian Development Bank (BNDES) totaled R$156 billion in 2012, 12.3% above the one registered in 2011, with highlights to the growth of commerce and services (51%), followed by the agriculture and livestock sector (16%). The disbursements directed to industry increased 9% in the year, in contrast to the retreat of 6% in those directed to the infrastructure sector. In the period, the infrastructure absorbed 34% of the total resources, followed by industry (31%), commerce and services (28%) and agriculture and livestock sector (7%).

51. Industrial production remained stable in December, month-on-month, according to IBGE seasonally adjusted data, after a 1.3% decrease (revised) in November, influenced by the also stable behavior of manufacturing industry. The mining industry grew 2.8% in this month. According to the use categories, retractions were recorded in the production of capital goods (-0.8%), durable consumer goods (-0.5%) and intermediate goods (-0.1%), whereas semi and non-durable consumer goods expanded by 0.9%. Fourteen out of the 26 manufacturing industry activities surveyed decreased in the month, with highlights for the segments of office machines and computer equipment (-13.1%) and medical-hospital instrumentation equipment (-8%), whereas clothing increased 10%. The industrial production decreased 0.3% in the fourth quarter, quarter-over-quarter, when it had increased by 1%, reflecting decrease of -0.6% in the manufacturing industry and expansion of 4.1% in the mining industry. The quarterly evolution was mainly favored by the performance of tobacco (-11.7%), office machines and computer equipment (-7.6%), electronic material and communication equipment (-5.6%); in the opposite direction, medical-hospital instrumentation equipment expanded by 8.1%. Considering observed data, industrial production presented decreases of 3.5% in December, year-over-year, and 2.7% in 2012, mainly reflecting the decreases of 14.7% and 11.8%, in order, in capital goods production. Among the manufacturing industry activities, automotive vehicles, electronic material and communication equipment, and office machines and computer equipment recorded the sharpest decreases in 2012, all of them with the same retraction rate of 13.5%.

52. The installed capacity utilization rate (Nuci) in the manufacturing industry reached 84.1% in February, a 0.3 p.p. decrease month-on-month, according to FGV seasonally adjusted data. Decreases were registered for all use categories: non-durable consumer goods (-0.9 p.p.), capital goods (-0.6 p.p.), durable consumer goods (-0.4 p.p.), intermediate goods (-0.4 p.p.), and construction inputs (-0.2 p.p.). Considering the observed series, the Nuci increased 0.4 p.p., year-over-year, reaching 83.3%, as a result of the increases in durable consumer goods (2.5 p.p.), construction inputs (1.9 p.p.), and intermediate goods (0.8 p.p.); in contrast, capital goods and non-durable consumer goods decreased 1.0 p.p. and 0.1 p.p..

53. Vehicles output reached 229.3 thousand units in February, representing a decrease of 11.2% month-on-month and an increase of 0.3% in the quarter ended in February, according to data released by the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the BCB. Considering observed data, vehicles output increased 5.2% year-over-year and 3.6% in twelve months through February.

54. According to data released by Anfavea, national vehicle licensing decreased 13.6% in February, month-on-month, and increased 7.4% in the quarter ended in February, considering data seasonally adjusted by the BCB. Regarding observed data, there were a decrease of 5.8% year-over-year and an expansion of 5.5% in twelve months. Automobile exports totaled 31.7 thousand units in February, representing retractions of 12.9% year-over-year, and 19.1% in twelve months through February. According to the series seasonally adjusted by the BCB, exports decreased 15.2% in the month, month-on-month, and increased 27.1% in the quarter ended in February, as compared to the quarter ended in November.

55. The LSPA survey carried out by the IBGE regarding January projected 183.3 million tons for the 2013 national harvest of grains, representing an increase of 13.1% year-over-year and a decrease of 3% over the previous crop estimate. Regarding the 2012 harvest of grains, the new prognosis evidences, in particular, the expected increase of 26.3% for soybean production. Regarding the other main crops, respective increases of 30.6%, 11.5%, 5.3% and 3.8% are being estimated for the harvests of beans, wheat, rice and corn. Moreover, a 6% increase over the previous year has been estimated for the harvest of sugar cane.

Surveys and Expectations

56. The Consumer Confidence Index (ICC), considering seasonally adjusted data from the nationwide Consumer Expectations Survey (FGV), decreased 1.4% in February, month-on-month, reaching 116.2 points, reflecting decreases of 2.3% in the Current Situation Index (ISA) and 0.8% in the Expectations Index (IE). According to observed data, the ICC decreased 3%, year-over-year, due to changes of -8.3% in the ISA and of 0.8% in the IE.

57. The ICS, calculated by the Services Survey carried out by the FGV, decreased 2.7% in February, month-on-month seasonally adjusted, moving from 125.5 to 122.1 points, as a result of the decreases of 4.4% in the Current Situation Index (ISA) and 1.5% in the Expectations Index (IE). The ICS decreased 5.7%, year-over-year, as a result of the 8.9% decrease in the ISA and of 3.4% in the IE.

58. The Commerce Confidence Index (ICOM), measured by the Commerce Survey from the FGV, reached 123.7 points in February, decreasing 0.3% year-over-year. The result reflected decrease of 5.3% in the Expectations Index (IE-COM) and increase of 7.9% in the Current Situation Index (ISA-COM). In the quarter ended in February, the ICOM decreased 0.9% year-over-year, due to the retraction of 3.8% in the IE-COM, partially offset by the expansion of 3.2% in the ISA-COM.

59. The Manufacturing Confidence Index (ICI), considering data seasonally adjusted from the nationwide Manufacturing Survey (FGV), increased 0.1% in February, month-on-month, to 106.6 points, driven by the contraction of 1% in the Current Situation Index (ISA) and expansion of 1.4% in the Expectations Index (IE). The ICI increased 3.8% year-over-year, as a result of the increases of 1.7% in the ISA and 6.1% in the IE.

60. The Construction Confidence Index (ICST), measured by the Construction Survey, from the FGV, reached 117.7 points in February, decreasing 10.2% year-over-year. The result reflected retreats of 12.5% in both the Current Situation Index (ISA-ICST) and 8.3% in the Expectations Index (IE-ICST). In the quarter ended in

February, the ICST decreased 6.9%, year-over-year, due to the retreats of 7.9% in the ISA-ICST and 6% in the IE-ICST.

Labor Market

61. According to the General Record of Employment and Unemployment (Caged) of the Ministry of Labor and Employment (MTE), 28.9 thousand formal jobs were created in January, of which 43.4 thousand jobs in the manufacturing industry and 33.4 thousand jobs in the civil construction, opposed to the net close of 67.5 thousand jobs in the commerce sector. In twelve months through January, 778.2 thousand jobs were created, compared to 1.5 million, in the same period of 2012. Month-on-month, formal job creation expanded by 0.2%, considering data seasonally adjusted by the BCB.

62. According to the IBGE employment survey (PME), conducted in the six main metropolitan areas of the country, the unemployment rate reached 5.4% in January, with increase of 0.8 p.p. month-on-month and retreat of 0.1 p.p. year-over-year. The monthly result reflected decreases of 1.2% in the employed population and 0.4% in the Economically Active Population (PEA). Considering seasonally adjusted data by the BCB, unemployment reached 5.5% in January, stable over the previous month. According to the same survey, the average real income usually earned by workers decreased 0.1% month-on-month and increased 2.4% year-over-year. Real payroll recorded changes of -1.2% and 5.3%, respectively, according to the same comparison bases.

Credit and Delinquency Rates

63. Considering the new configuration of the statistics related to credit transactions, outstanding credit in the financial system, including earmarked and non-earmarked operations, reached R$2,367 billion in January, showing stability in the month and increasing 16.4% in twelve months, equivalent to 53.2% of GDP (48.9% in January 2012). Non-earmarked credit operations, which represents 58.7% of the total outstanding credit of the financial system, decreased 0.7% in the month and increased 13.1% in twelve months, reflecting respective changes of 0.8%, and 10% for credit operations to individuals, and retreat of 2% and increase of 16.4% for credit operations to corporate, in the same order. Earmarked credit operations increased, respectively, 1% and 21.5%, according to the same comparison bases, with highlights for the expansions of 2.4% and 34.5%, respectively, in housing credit in the segment of individuals, and of 0.3% and 15.3%, respectively, in loans with BNDES funds directed to operations to corporate.

64. The overall average interest rate of loans in the financial system, after ten months of successive declines and cumulative reduction of 5.2 p.p. in the last twelve months, rose by 0.5 percentage points in January, reaching 18.5% p.a.. The average rates for the segments of individuals and corporate reached, respectively, 24.6% and 13.9% in the month, totaling respective increases of 0.3 p.p. and 0.6 p.p., month-on-month, and retreats of 6.2 p.p. and 4.5 p.p., year-over-year.

65. The overall average tenure on credit operations reached 88.5 months in January, compared to 87.7 months in December and 72.8 months in January 2012. The tenure related to individuals increased 2.3 months and 18.4 months, according to the same comparison bases, and that related to the corporate segment fell 0.6 month-on-month and increased 13.6 months year-over-year, reaching 125.3 months for individuals and 60.5 months for corporate.

66. The delinquency rate in the financial system, corresponding to operations in arrears for more than ninety days, stood at 3.7%, remaining stable month-on-month and showing a decrease of 0.1 p.p., year-over-year. The indicator for the operations with individuals reached 5.5%, decreasing 0.1 p.p. relative to the previous month and 0.4 p.p. in twelve months, while the credit operations to the corporate segment remained stable at 2.2% in January, increasing 0.1 p.p. in twelve months.

External Environment

67. Since the last Copom meeting, the global activity continues at a moderate pace and heterogeneous development, with expansion in the US and China and contractions in the Euro Area and in Japan. In the fourth quarter of 2012, the annualized quarterly changes in GDP showed growth in China (8.2%), stability in the US (0.1%) and contractions in Japan (-0.4%) and in the Euro Area (-2.3%), compared to respective changes of 8.7%, 3.1%, -3.8% and -0.3% in the previous quarter. In the US, GDP stability reflected the negative contributions of inventories, governmental expenditures and exports, and increases of positive contributions of household consumption and gross fixed capital formation. The unemployment rate has continued at a high level, ranging between 7.8% and 7.9% since September, and the generation of non-farm jobs reached 157 thousand in January, with positive revisions in the months of November and December. The housing market remains in recovery. The activity in the Euro Area has accumulated five consecutive quarters of contraction, with the unemployment rate rising to 11.9% in January, a record high for the series. Notwithstanding, the last indicators of industrial production, for December 2012, and of economic sentiment, relative to February 2013, showed improvement. In Japan, the contraction in the last quarter of 2012 was influenced by the declines in business investment, exports and change in private inventories. However, industrial production, which rose in three of the last four months through January; the trade flow, which in January reported the first year-over-year growth in eight months; and the February Manufacturing PMI, increasing for the second consecutive month, suggest improvement in economic conditions. In China, despite the marginal deceleration of GDP, the average of the monthly growth rates of fixed asset investment, industrial production and retail sales increased in the fourth quarter, quarter-over-quarter. The Composite PMI, after increasing for five consecutive months, dropped to 51.4 in February.

68. The risk perception has increased since the last Copom meeting, especially since the second half of February, due to uncertainties associated to the duration of the asset purchases program carried out by the Federal Reserve and to the increasing likelihood of budgetary cuts, in the US, and to the uncertainty regarding the Italian electoral process. Under this scenario, the dollar appreciated against the major currencies and the CBOE VIX and EMBI+ indexes recorded elevations. Stock exchanges recorded distinct behaviors, with most indexes referring to the developed economies booming, especially the Nikkei, from Japan, and the ones relative to emerging economies, going down. Regarding international commodity prices, there were reductions in most of it. The S&P GSCI Commodity Spot and its respective sub-indices for agricultural, industrial metals and energy observed devaluations. Among agricultural commodities, it bears highlighting the reduction in the prices of sugar, coffee, corn and wheat, and the increase in cotton.

69. In December, the annual change in the global CPI, data from International Financial Statistics (IFS), from the International Monetary Fund (IMF), increased to 3.5%, up from 3.4% in November, as a result of a 6.3% increase in the CPI in emerging economies, the highest level in eight months, compared to 6.0% in November. In advanced economies, the annual change in the CPI remained at the same level of 1.6% observed in November. Among the economies in this group, it bears noticing the reductions in US and in the Euro Area, which, in January, reached respectively 1.6% and 2.0%, the lowest values since July 2012 and November 2010, in the same order.

70. The official interest rates were maintained at the record low levels in the US, between 0% and 0.25%; in the Euro Area, 0.75%; in Japan, between 0% and 0.1% and in the UK, 0.5%. In the other economies, the rates also remained at the previous levels, except for Colombia, Hungary, India and Poland, which reduced their basic rates. It is noteworthy that, in Japan, on January 22nd, the BoJ changed to 2% its goal of price stability and opted for the Asset Purchase Program without ending date, to be effective as from January 2014.

Foreign Trade and International Reserves

71. The Brazilian trade balance showed a deficit of US$1.3 billion in February, as a result of US$15.6 billion in exports and US$16.8 billion in imports. The accumulated deficit in the first two months of the year totaled US$5.3 billion, compared to a surplus of US$399 million in the same period of 2012, reflecting a decrease of 5.5% in exports and an increase of 11.8% in imports, according to the criterion of daily average. The total

external trade expanded by 3.1% in the period, considering the daily averages, totaling US$68.3 billion, up from US$67.9 billion in the previous year.

72. International reserves according to the liquidity concept, which includes repurchase lines, totaled US$376.5 billion in February, with a reduction of US$1.3 billion in the month and US$2.1 billion compared to the end of 2012. According to the cash concept, the outstanding of international reserves totaled US$$373.7 billion, with expansion of US$325 million month-on-month and US$594 million year-over-year. In the month, there was no intervention in the spot market, having the Central Bank paid purchases of US$1.6 billion in repurchase lines operations, in the domestic exchange market.

Money Market and Open Market Operations

73. After the January Copom meeting, the domestic yield curve had an increase throughout its length. Among the factors underpinning this movement, it bears highlighting, on the domestic scenario, the disclosure of more pressured price indices and the market expectation for the start of the Selic target increase cycle. Between January 14th and March 4th, 2013, one-, three- and six-month interest rates increased by 0.09 p.p., 0.13 p.p. and 0.40 p.p., respectively. The rates for one-, two- and three-years maturities increased by 0.62 p.p., 0.70 p.p. and 0.64 p.p. respectively. The real interest rate, measured by the ratio between the one-year nominal interest rate and the inflation expectation (smoothed) for the next twelve months, increased from 1.47% on January 14th to 1.98% on March 4th, mainly due to the rise in nominal rates.

74. On January 28th, the BCB carried out traditional FX swap auctions maturing on March 1st, in an amount equivalent to US$1.8 billion. On February 8th and 15th, the BCB carried out reverse FX swap auctions, maturing on March 1st, which totaled US$1.8 billion, neutralizing its net position in FX swap contracts.

75. In its open market operations, the BCB carried out weekly, between January 15th and March 4th, repurchase agreements with maturities of three and six months, borrowing the amounts of R$59.4 billion and R$85.1 billion, respectively. The average daily balance of the long-term operations increased from R$265.2 billion between November 27th 2012 and January 14th 2013, to R$361.1billion between January 15th and March 4th. In the same period, the BCB also borrowed money through operations with tenure of thirty-three working days, reducing the average daily balance of short-term borrowing operations to R$223.4 billion. The BCB also conducted very short-term operations on 32 occasions, being a borrower in 31 of them. It also conducted leveling operations, at the end of the day, with tenures of two working days. The average daily balance of these operations totaled R$39.6 billion in the period. The average daily balance of the BCB total outstanding of repurchase repo operations increased from R$587.7 billion between November 27th 2012 and January 14th 2013, to R$624.1 billion between January 15th and March 4th. Considering the operations for the most recent period, the total outstanding of repurchase agreements decreased from R$652.9 billion on January 14th to R$624.8 billion on March 4th. The main factors that contributed to the contraction of liquidity in the period were the net revenues of the Government and the net issuance of securities by the National Treasury.

76. Between January 15th and March 4th, the National Treasury issuance regarding the traditional auctions totaled R$36.3 billion. The sale of fixed-rate securities reached R$26.0 billion, of which R$19.9 billion in LTNs maturing in 2013, 2014, 2015 and 2016, and R$6.1 billion in NTN-Fs maturing in 2019 and 2023. The sales of LFTs totaled R$5.5 billion, with the issuance of securities maturing in 2018. In the auctions of NTN-Bs, securities maturing in 2018, 2022, 2030, 2040 and 2050 were sold, totaling R$4.8 billion.